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STATE PASS EXIM, OPIC, AND USTR  
STATE PASS USAID FOR AA/ANE, AA/EGAT, DAA/ANE  
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SUBJECT: Revenue Crunch Leads to Questionable Book Tax

11. Summary: The Philippine Bureau of Customs decision to levy duties on foreign book imports has generated an outcry in the Philippine media, led by internet forums, and by affected businesses. Philippine Senator Miriam Defensor-Santiago has called for a formal investigation into the decision, noting that charging duty on books appears to violate the Florence Agreement of 1950, which pledged signatories to exempt books from customs duties. End summary.

12. Local internet discussion forums broke the news when the Philippine Bureau of Customs started collecting import duties on books, in apparent violation of the Florence Agreement of 1950, whose signatories, including the Philippines, agree not to impose import taxes on books. Publishers report that in March Customs began stopping shipments of imported books, refusing to release them until importers paid a 5% tariff. Customs then refined its policy, citing the Philippine Tariff and Customs Code, to charge a 1% duty on educational, scientific, and cultural books, and a 5% tax on other books. A Philippine Department of Finance official reportedly told a group of publishers that the Philippine government would henceforth interpret the Florence Agreement as requiring that only books directly "used in book publishing" qualify for duty-free entry.

13. Post first learned of the new tariff in March from the Association of American Publishers, who mistakenly thought the issue would be quickly and easily resolved. In May, the issue began to appear in internet discussions. A few days ago, Philippine Senator Miriam Defensor-Santiago criticized the violation of the Florence Agreement, called for a Senate investigation with the support of four colleagues, and made the issue front-page news.

14. In addition to the sudden reinterpretation of the Florence Agreement, foreign publishers and local bookstores allege that Customs deliberately slows its assessment of imported books, by insisting on inspecting each imported book by hand, in order to increase storage charges. One local bookstore claimed that a shipment of books worth \$10,000 attracted duty of less than \$300 but storage charges in excess of \$4,000 while the shipment was painstakingly inspected.

15. As in most commercial disputes in the Philippines, there are allegations of corruption; it is alleged that Customs officials prolong the inspection process because they profit personally from the storage charges. However, most observers believe that the driving force behind the decision to tax book imports is the persistent revenue shortfalls in both Customs and the Bureau of Internal Revenue. Revenue for this year is already hundreds of millions of dollars behind official targets.

16. Comment: Post believes that the tariff is unlikely to survive the current business, media, and congressional criticism, and that

it will soon be rescinded. However, we will closely monitor the issue and weigh-in against the tariff at appropriate opportunities.

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